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INFO RUEHBR/AMEMBASSY BRASILIA PRIORITY 3749
RUEHGL/AMCONSUL GUAYAQUIL PRIORITY 2314

C O N F I D E N T I A L QUITO 001102

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E.O. 12958: DECL: 05/16/2017
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [EC](#)
SUBJECT: PETROECUADOR'S NEW PLANS

REF: QUITO 906

Classified By: Classified by DCM Jefferson Brown. Reasons: 1.4 B and
[1D](#).

[11](#). (C) Summary: In a meeting with Embassy officials, Petroecuador President Carlos Pareja outlined Petroecuador's plans to open the ITT fields project to international bidding, sell high octane gasoline at market prices (a possible first step towards reducing subsidies), introduce a gasoline/ethanol blend (primarily to create jobs in Ecuador's sugar-growing regions), and restore production in the former Oxy fields by initiating an aggressive drilling program. Pareja also discussed Petroecuador's plans to upgrade its refineries and combat corruption. End Summary.

[12](#). (C) EconCouns and Econoff met on May 11 with Carlos Pareja, Executive President of state oil company Petroecuador. Pareja explained that the Government of Ecuador (GOE) is still deciding how to handle potential development of the country's major Ishpingo-Tambococha-Tiputini (ITT) fields, which contain an estimated billion barrels of reserves (reftel). Press reports had indicated that Pareja wanted to develop the fields with a consortium of state-owned oil companies, and Petroecuador already signed a non-binding MOU with them on the project. However, Pareja noted that he now favors putting the project out for international bid to public and private companies, to allow for the most competitive selection of candidates. He mentioned that twenty companies have expressed interest in the project, including French company Total (but he could not recall any expression of interest from U.S. companies). Pareja will present his proposal for an international bid process to Petroecuador's Board of Directors on May 17.

[13](#). (SBU) Along with ITT development, Pareja listed upgrading the Esmeraldas refinery and building a new refinery in the coastal province of Manabi as key projects. He noted that Shell Oil has expressed interest in the Esmeraldas upgrade and has extensive experience in upgrading refineries in the region (he implied that it was the U.S.-based affiliate of Royal Dutch Shell that expressed interest).

[14](#). (C) On the commercial side, Pareja noted that he will propose to the Petroecuador board that Petrocommercial gas stations introduce a 95 octane "Premium" gasoline, which will sell at market prices. "Premium" would replace the 89 octane "Super" gasoline, which is currently subsidized. According to Pareja, Petroecuador would continue to sell "Extra," which is highly subsidized (it sells for around \$1.45/gallon). However, whoever wants the quality gasoline, he said, will have to pay full price. He allowed that this might be a first step towards curtailing Ecuador's expensive fuel subsidies program, which he said is unsustainable. He expects this change to be implemented June 30.

¶15. (C) On biofuels, Pareja said that Petroecuador is pursuing a pilot project to mix gasoline with five percent ethanol in the Guayaquil area. The ethanol would at first be imported from Brazil, but the plan is to eventually produce the ethanol locally. He stated frankly that a five percent gasoline/ethanol blend would not have any environmental impact, and the GOE is pursuing the ethanol project to generate jobs in Ecuador's sugar growing regions.

¶16. (C) Characterizing Petroecuador as "in crisis," Pareja complained of extensive corruption in the state company and in particular in its powerful unions. Pareja said that he would like to use the upcoming Constituent Assembly to change labor laws to limit union powers. He also plans to implement an open web-based procurement system for all Petroecuador purchases, to enhance transparency and combat corruption in procurement practices.

¶17. (SBU) When asked about Ecuador's continuing decline in petroleum production, Pareja commented that Petroecuador now has a "good" budget and will be investing to increase production this year. Focusing on the sharp production decline in Block 15 (which the GOE seized from U.S. Occidental Petroleum in 2006 for alleged contract violations), Pareja outlined Petroecuador's plan to begin an aggressive drilling program. He noted that Petroecuador did not drill any wells in Block 15 last year, but drilled one well in April and plans to drill three wells per month for the rest of the year. Block 15 production has officially fallen to 85,000 barrels per day (bpd) (although one non-GOE expert put the number closer to 73,000 bpd). Pareja expects production to rise to between 90 and 92 thousand bpd by 2008.

¶18. (SBU) Pareja did not comment on the status of GOE efforts to renegotiate contracts with private oil companies, saying that matter falls within the purview of the Ministry of Energy.

¶19. (C) Comment: There are some pragmatic elements to Pareja's plans, including opening competition for the ITT fields to a broad range of companies and (surprisingly) a tentative step toward curtailing Ecuador's expensive fuel subsidies. However, given disagreements between Pareja and Energy Minister Acosta on how to manage Ecuador's petroleum sector, as well as limited Ecuadorian ability to implement such a wide-ranging plan, it is unclear what elements of Pareja's plans will ultimately be implemented. End Comment.
JEWELL